

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

**RED CLAY CONSOLIDATED
SCHOOL DISTRICT**

AGREED-UPON PROCEDURES ENGAGEMENT

JULY 1, 2006 – JUNE 30, 2007

FIELDWORK END DATE: MAY 12, 2008

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State of Delaware
Office of Auditor of Accounts
R. Thomas Wagner, Jr. – CFE, CGFM, CICA
At a Glance

Working Hard to Protect YOUR Tax Dollars

Why We Did This Review

Based on the findings and recommendations from the Financial Recovery Team's December 13, 2007 report regarding the Red Clay Consolidated School District, the Department of Education requested that the Office of Auditor of Accounts (AOA) perform procedures over certain findings.

Background

The Red Clay Consolidated School District was formed on July 1, 1981. It was one of four districts created when the New Castle County School District was reorganized.

The District includes northwestern sections of the City of Wilmington and its suburbs, all the way to the Pennsylvania State Line, from the Brandywine Creek to the Pike Creek Valley area, and along the Christina River back to the city line. The district serves approximately 16,000 students in 14 elementary schools, six middle schools, three high schools, five special education schools, and one special focus school.

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RED CLAY CONSOLIDATED SCHOOL DISTRICT
AGREED-UPON PROCEDURES ENGAGEMENT

What We Found

Substitute Teaching Services:

- The District paid \$2,885,015 to a vendor for the coordination of substitute teaching services, 86% of which was paid with local funds.
- The District chose to pay a higher daily rate for long-term substitutes, \$88.84 per day above the DOE-approved rate. This resulted in a premium paid to the long-term substitutes of \$689,793.

Tuition Tax:

- During Fiscal Year 2007, the District's tuition tax rate was too low to cover all tuition expenditures, the District did not maintain timesheets or time and effort reports to support tuition tax payroll expenditures, the District did not maintain support for the estimated Fiscal Year 2006 amounts on the tuition bills, and the District did not have a documented methodology to support the methods used to prepare each of the columns on those bills.

Charter Schools:

- The Charter School of Wilmington (CSW), a charter school sponsored by the District and housed in one of the District's school buildings, is not required to pay rent for their portion of the building space. Based on research of commercial and office space property listings near the Charter School of Wilmington and the average lease payments made by other Charter Schools throughout the State, the District is forgoing between \$1,291,972 and \$2,261,800 in revenue annually.

Specialist Positions:

- The District employed 14 "Specialist" positions during Fiscal Year 2007. The total salaries and other employment costs for these positions was \$1,260,086, 62% of which were paid with local funds.

Budget Process:

- The District did not maintain a documented methodology for the Fiscal Year 2007 budget process.
- AOA could not agree \$952,476 of DFMS expenditures to an internal management report that tracks budgeted and actual expenditures. In addition, AOA noted that the largest variance between budgeted and actual expenditures occurred in internal budget unit (IBU) 97, District Wide Services, which includes the expenditures paid for substitute teaching services.

What We Recommend

Substitute Teaching Services:

- By coordinating the substitute teaching process in-house, AOA estimated that the District could save \$191,880.

Tuition Tax:

- The District should levy a tax rate sufficient to cover the expenditures of the tuition tax program and monitor the program to ensure that expenditures are paid in a timely manner.
- DOE should provide guidance to the Districts regarding the maintenance of proper supporting documentation for salaries charged to the tuition tax programs.
- The District should develop and implement policies and procedures to ensure that the tuition program charges are adequately supported.
- The District should develop and implement policies and procedures for preparing tuition tax bills to ensure that bills are consistently prepared and for maintaining proper supporting documentation.

Charter Schools:

- At the end of the current five-year contract with CSW, the District should renegotiate the contract for provisions that will enable the recovery of costs associated with both the use of the building space and the operation of the School.

Specialist Positions:

- The District should refrain from spending a disproportionate amount of local funds for "Specialist" positions.

Budget Process:

- The District should implement a documented methodology for preparing annual budgets.
- The District should reconcile any internal management tool to DFMS to ensure the completeness and accuracy of reports that are being used to monitor expenditures and the fiscal condition of the District.

Please read the complete report for a full list of findings/recommendations and to review the District's response to our findings.

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STATE OF DELAWARE

OFFICE OF AUDITOR OF ACCOUNTS

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

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Independent Accountant's Report
on Applying Agreed-Upon Procedures

The Honorable Valerie A. Woodruff
Secretary
Department of Education
Townsend Building, Suite 2
401 Federal Street
Dover, DE 19901

Dr. Robert J. Andrzejewski
Superintendent
Red Clay Consolidated School District
4550 New Linden Hill Road
Wilmington, DE 19808

We have performed the procedures enumerated below, which were agreed to by the Delaware Department of Education (DOE) and the Office of Auditor of Accounts (AOA). The procedures were performed solely to assist the specified parties in evaluating the Red Clay Consolidated School District (the District). District Management is responsible for the District's compliance with those requirements.

This agreed-upon procedures engagement was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States and the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures were as follows:

Procedure #1:

To determine the cost savings of coordinating substitute teachers in-house over using a substitute teaching service.

See Results section of the report.

Procedure #2:

To determine:

- a. if tuition tax expenditures are allowable and for DOE approved tuition programs,
- b. if the District correctly completed tuition tax bills,

- c. if the tuition tax rate is reasonable compared to tuition tax bills received from other Districts and/or allowable expenditures for tuition tax programs, and
- d. the circumstances behind the District's shortfall in tuition tax funds and whether local funds were used to pay for tuition programs.

*See **Results** and **Schedule of Findings** sections of the report.*

Procedure #3:

To review the financial transactions between the District and the Charter Schools it sponsors and to determine the financial impact of these transactions on the District.

*See **Results** sections of the report.*

Procedure #4:

To determine the purpose and cost of "Specialist" positions identified by DOE's Financial Recovery Team.

*See **Results** section of the report.*

Procedure #5:

To determine the propriety of the District's budgeting process.

*See **Results** section of the report.*

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with specified laws. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Department of Education and the District and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, and the State Treasurer's Office.

R. Thomas Wagner, Jr., CFE, CGFM, CICA
Auditor of Accounts
Office of Auditor of Accounts

Engagement fieldwork completed: May 12, 2008

RESULTS

Procedure #1:

To determine the cost savings of coordinating substitute teachers in-house over using a substitute teaching service.

Results

During Fiscal Year 2007, the District used Substitute Teacher Service, Inc. (STS) to coordinate both long-term and daily substitute teachers. The District paid a premium over the DOE-approved daily substitute teacher rates, as established by Delaware Code, as shown below:

Substitute Class	STS Rate	District Rate with OECs*	STS Premium over District Rate
Long-Term	241.05	211.01	30.04
Class A	139.36	113.80	25.56
Class B	111.22	90.82	20.40
Class C	88.44	72.22	16.22

* The District follows the DOE-approved substitute rates for the Class A, B, and C substitutes. However, for the long-term substitutes, the District pays \$192.84 plus other employment costs (OECs), while the DOE rate is \$104 plus OECs.

Based on a review of STS invoices, AOA noted that the District paid \$2,885,015 in Fiscal Year 2007 to STS, 14.07% (\$405,841) with State funds and 85.93% (\$2,479,174) with Local funds.

Cost of Using STS	\$ 2,885,015
Cost of Substitutes (using District rates)	2,491,231
Cost of Administration/Coordinators for Substitutes*	201,904
Total Estimated In-House Cost	2,693,135
Estimated Cost Savings by Coordinating Substitutes In-House	<u>\$ 191,880</u>

*Includes salary and OEC's for five secretarial positions (with 10 years of experience).

In order to attract more highly qualified long-term substitutes, the District chose to pay a higher daily rate for those substitutes. The premium paid above the DOE-approved rate to long-term substitutes totaled \$689,793.

RESULTS

Using ACL, AOA also determined the total amount paid to vendors that provide substitute teaching services to the DOE, School Districts, and Charter Schools for Fiscal Year 2007. Using the above noted premium rate paid to STS, AOA projects that the DOE, School Districts, and Charter Schools could have saved approximately \$950,000 by coordinating substitute teachers in-house.

	Total Amount Paid	Total Premium
Red Clay	2,885,015	393,784
Statewide	6,965,760	950,826

Auditee Response

In Fiscal Year 2007, the District contracted for both long-term and daily substitutes. This was a change in practice from contracting for daily subs only. The District agrees with the results. Prior to the review and work with the Financial Recovery Team, the District had already changed practice regarding long-term substitutes. In Fiscal Year 2008, long-term subs are now processed through the District payroll and not through a contracted vendor.

However, the District maintains its position regarding the payment rate for long-term subs. In limited cases, the rate paid for long-term substitutes who taught as a replacement for a permanent, full-year teaching position received compensation based on the lowest teaching scale at a Bachelor's degree and 0 years experience. This is appropriate compensation; while it does differ from the daily rate allowed for short-term substitutes, they are not daily substitutes but instead are serving in an increased full-time capacity. This is true in both Fiscal Year 2007 and 2008.

For short-term substitutes, the District has determined the daily substitute teaching contract is in the best interest of the District- both fiscally and for schools and teachers. Based on contractual leave time including personal and sick time, there is a potential liability in the District for over 11,000 teacher absences in one year. The substitute teaching service contract requires not only the coordinating and scheduling of substitute teachers, but also requires the interviewing, criminal background check and all legal requirements for a substitute teacher to work in a school. The District does not believe it is an accurate comparison to calculate salaries of secretaries without including administrative costs. Changing the process of hiring daily substitutes would encompass significant administrative time that has not been accounted for. Additionally, based on the state allocation of position units, hiring additional secretaries (or administrators) would exceed the State allocation and cause 100% locally funded positions- significantly placing an unsustainable burden on local funds.

RESULTS

Procedure #2:

To determine:

- a. if tuition tax expenditures are allowable and for DOE approved tuition programs,
- b. if the District correctly completed tuition tax bills,
- c. if the tuition tax rate is reasonable compared to tuition tax bills received from other Districts and/or allowable expenditures for tuition tax programs, and
- d. the circumstances behind the District's shortfall in tuition tax funds and whether local funds were used to pay for tuition programs.

Results

AOA determined that:

1. the District's tuition tax rate was too low to cover all tuition tax expenditures,
2. the District did not maintain timesheets or time and effort reports to support tuition tax payroll expenditures,
3. the District did not maintain support for the estimated FY06 amounts on the tuition bills, and
4. the District did not have a documented methodology to support the methods used to prepare each of the columns on those bills (estimated FY07, actual FY06, and estimated FY06).

See the ***Schedule of Findings*** section of this report for findings identified regarding the tuition tax procedures noted above.

In addition, AOA reviewed the cash adjustment transactions that were processed using tuition tax appropriations. AOA determined that there was not an excess of local funds transferred to tuition tax appropriations to cover tuition tax expenditures. However, AOA could not determine whether there was tuition tax expenditures paid directly out of local fund appropriations.

Procedure #3:

To review the financial transactions between the District and the Charter Schools it sponsors and to determine the financial impact of these transactions on the District.

Results

AOA determined that the financial transactions between the District and the Charter Schools it sponsors were appropriate.

However, AOA noted that the District only charged the Charter School of Wilmington (CSW) for expenditures such as the School's portion of utilities, custodial salaries, and other expenditures associated with the School's use of the building.

RESULTS

The District does not charge any additional lease fee to CSW. AOA researched local commercial/office space property listings and found the following properties currently being leased in the Wilmington area:

Location	Distance* (miles)	Annual Price per Sq. Foot
510 Philadelphia Pike	6.79	\$ 16.00
300 Delaware Avenue	2.59	20.00
3513 Concord Pike	6.09	22.00
2751 Centreville Road	2.06	28.50
5301 Limestone Road	6.63	21.75
1521 Concord Pike	5.35	23.50
503 Carr Road	6.38	22.00
1201 N Orange Street	2.79	25.00
824 Market Street	2.56	22.00
1313 N Market Street	2.95	15.00

Average Annual FMV Price per Sq. Foot \$ 21.58

CSW Square Footage 104,810

CSW Lease based on Average Commercial Rate \$ 2,261,800

* Miles calculated based on Mapquest.com distance between school address (below) and property addresses, as noted above.

Charter School of Wilmington:

100 N DuPont Rd

Wilmington, DE 19807

Because a charter school would be able to obtain a discounted property rate from the commercial rates, AOA researched the lease amount paid by the State's other charter Schools and calculated the average per pupil lease rate to estimate the lease cost to CSW (using their Fiscal Year 2007 enrollment figures), as detailed in the analysis below:

RESULTS

Charter School	Total FY07 Building Lease Payments	2006-07 Student Enrollment	Building Lease per Student
Academy of Dover	\$ 419,395	257.00	\$ 1,631.89
Delaware Military Academy	615,396	499.00	1,233.26
Kuumba Academy	181,470	238.00	762.48
Marion T. Academy	288,710	499.00	578.58
Maurice J. Moyer	175,891	232.63	756.10
Odyssey Charter	306,967	120.00	2,558.06
Pencader Business & Finance	595,553	310.00	1,921.14
Positive Outcomes Charter School	144,000	53.00	2,716.98
Providence Creek	524,000	619.00	846.53
Sussex Academy of Arts & Sciences	192,000	308.00	623.38

Average Lease per Student \$ 1,362.84

Charter School of Wilmington 2006-07 Student Enrollment 948.00

CSW Lease based on Average Building Lease per Student \$ 1,291,972.32

Based on the above research and analysis, AOA estimates that the District is potentially forgoing between \$1,291,972 and \$2,261,800 in revenue annually.

Auditee Response

The District does not agree with the results. The District has a five-year contractual agreement with the Charter School of Wilmington and both parties have and continue to honor the terms of the agreement. As per 14 Del. C. Section 504A(6), state law requires Districts make available any excess space and “bargain in good faith” over the terms of the lease. The District has met this requirement. The Charter School of Wilmington is charged all direct costs associated with the use of the space. The comparisons using commercial lease space or lease space paid for by other charter schools is not applicable as they do not occupy currently vacant school space. As the first charter school established in Red Clay and in an environment of significant turnaround for the former Wilmington High School, the Red Clay board acted on two unique and successful endeavors in the same physical space: Cab Calloway School of the Arts and Charter School of Wilmington. The board decision and policy regarding the shared space is reviewed through the charter process and will continue to be reviewed in the future.

Auditor Comment

We recommend that the District renegotiate the contract with the Charter School of Wilmington at the end of the 5 year term to add provisions that enable the District to recover costs associated with the use of the building space and the operation of the school.

RESULTS

Procedure #4:

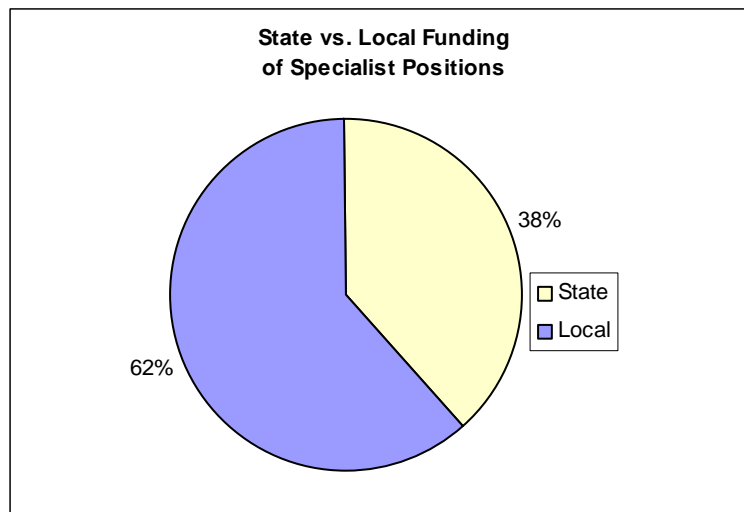
To determine the purpose and cost of "Specialist" positions identified by DOE's Financial Recovery Team.

Results

AOA determined that there were 14 "Specialist" positions employed by the District. The positions and the State and Local salaries are listed below:

Position Title/Purpose	State	Local	Total Salary	Total Salary (with OEC's)
Energy Coordinator	\$ 62,878.26	\$ 35,374.70	\$ 98,252.96	\$ 123,307.46
Specialist (Operations & Maintenance)	24,414.66	34,984.42	59,399.08	74,545.85
HR/Benefits Specialist	30,082.49	38,610.42	68,692.91	86,209.60
Maintenance Field Supervisor	24,414.82	48,184.20	72,599.02	91,111.77
Specialist (Printing/Copy Center)	26,146.12	55,501.94	81,648.06	102,468.32
Supervisor (Operations & Maintenance)	24,434.18	54,764.94	79,199.12	99,394.90
Business Office Financial Analyst	47,039.98	50,462.10	97,502.08	122,365.11
Specialist (Major Capital Projects)	20,001.00	52,557.98	72,558.98	91,061.52
Specialist (Printing/Copy Center)	20,135.18	37,426.74	57,561.92	72,240.21
Specialist (Technology)	17,403.88	50,636.04	68,039.92	85,390.10
Business Office Specialist	13,678.03	22,932.28	36,610.31	45,945.94
Public Information Officer	34,229.52	57,624.58	91,854.10	115,276.90
Administrator	34,228.74	59,188.09	93,416.83	117,238.12
Payroll Specialist	4,885.95	21,831.28	26,717.23	33,530.12
Totals	\$ 383,972.81	\$ 620,079.71	\$ 1,004,052.52	\$ 1,260,085.91

As noted in the chart below, the District paid approximately 62% of these salaries out of the local funds.



The District spends a disproportionate amount of local funds for these positions.

RESULTS

Auditee Response

The District agrees with the title and salary of the positions listed. For staffing models, State position formulas make no distinction between large and small Districts. This is an issue continuously raised by large Districts with the State. A District the size and with the number of employees of Red Clay must function with specialists in critical areas such as payroll, human resources and the maintenance of extensive facilities. As determined by the Financial Recovery Team, it is an appropriate decision when the District makes the decision consciously with sufficient resources. In using existing units, the District is maximizing its State allocation to best serve the needs and requirements of the District. At the same time, the District is minimizing its local funds resources by avoiding 100% locally funded positions.

Procedure #5:

To determine the propriety of the District's budgeting process.

Results

AOA could not determine the process the District used to develop the Fiscal Year 2007 budget since the District did not maintain a documented methodology for the Fiscal Year 2007 budget process. In addition, the prior Chief Financial Officer that developed the budget is no longer employed by the District.

For Fiscal Year 2007, the District did not maintain a formal document that tracks the final, Board-approved budget and the total expenditures that agree to DFMS for the District as a whole. The District uses an internal management report that tracks budgeted and actual expenditures; however, the report only tracks the operating budget for the District. The first version of the report, provided to AOA, did not agree to current fiscal budget year expenditures. Upon discussion with the District, the District determined that there was an error in the report and corrected it. AOA was then provided an updated report and compared the budgeted and actual expenditures to the District's Board-approved budget and actual expenditures per DFMS. AOA could not agree all budget lines because the District updates the internal report for any circumstances that impact expected revenues throughout the year. In addition, AOA could not agree, in total, the DFMS expenditures to this report:

Division	Expenditures per Report	Expenditures per DFMS	Difference
Red Clay (95-32-00)	245,433,635	245,434,287	(652)
Meadowood (95-54-00)	7,906,741	8,110,365	(203,624)
Red Clay ILC (95-58-00)	8,271,761	9,019,961	(748,200)

AOA also noted that the largest variance between budgeted and actual expenditures occurred in internal budget unit (IBU) 97, District Wide Services, which includes the expenditures paid to STS for substitute teaching services. See further detail regarding substitute teaching services in the results for ***Procedure #1.***

Auditee Response

The District has previously and repeatedly recognized budgeting errors were made in Fiscal Year 2007. However, the District does not agree the errors were a result of a lack of documented methodology. The budget development process is complex and incorporates hundreds of analyses and points of information

RESULTS

including meetings with program managers, review of prior expenditures, and financial forecasts including State and local funding sources. The budget is a plan and projection for the best use of resources given the information available at the time.

In conjunction with the Financial Recovery Team, the District has acknowledged two significant errors in the Fiscal Year 2007 budget that included an overage in expenditures beyond budget in IBU 97 District Wide Services and an overreporting of revenue in IBU 28 State Salaries. These two items, and all other IBUs, were reviewed closely as part of the Fiscal Year 2008 budget development process.

The District uses an internal management tool called FMS to track expenditures to budget. FMS is not purported by the District to replace or replicate the State's accounting system, DFMS as suggested by the AOA. The Financial Recovery Team determined and the District acknowledged that staff did not use FMS to its full capacity in Fiscal Year 2007. As an internal management tool, it is not required by the State or District, but the District does incur a cost for the service. The District has changed practice in Fiscal Year 2008 and continuously utilizes FMS, as well as prepares a monthly revenue and expenditure report for the Board and review by the Community Financial Review Committee.

Auditor's Comment

AOA is not suggesting that FMS replace or replicate DFMS. However, AOA recommends that any internal management tool utilized by the District be reconciled to source data (DFMS) to ensure the completeness and accuracy of reports generated by DFMS that are being used to monitor expenditures and fiscal condition of the District.

SCHEDULE OF FINDINGS

Procedure #2

To determine:

- a. if tuition tax expenditures are allowable and for DOE approved tuition programs,
- b. if the District correctly completed tuition tax bills,
- c. if the tuition tax rate is reasonable compared to tuition tax bills received from other Districts and/or allowable expenditures for tuition tax programs, and
- d. the circumstances behind the District's shortfall in tuition tax funds and whether local funds were used to pay for tuition programs.

Finding #1

Criteria

Per the *Instructions for Department of Education Tuition Billing Form*, "For Districts operation special programs, the maximum carryover balance shall be based upon a reasonableness test that will allow a District to maintain a June 30th balance that allows for contractual encumbrances to be processed for the entire fiscal year, and also allows projected expenditures to be paid through the month of December. There shall be no specific carryover balance limitation for those accounts that are used to pay tuition expenses to other Districts."

Condition

The District's ending tuition tax fund balance decreased \$8,417,840, from \$9,827,208 to \$1,409,368, from June 30, 2005 to June 30, 2006, and it further decreased by \$1,071,544, from \$1,409,368 to \$337,824, from June 30, 2006 to June 30, 2007. The balance at June 30, 2007 was not sufficient to cover the bills paid in July and August 2007. However, the District did not increase the tuition tax rate for the year ending June 30, 2006, and it only increased by \$0.04 for the year ending June 30, 2007.

In addition, the District paid two years' of tuition tax bills within Fiscal Year 2007.

Cause

The minimal increase was the tuition tax rate was not sufficient to allow the District to pay the Fiscal Year 2007 tuition bills and tuition expenditures in a timely manner.

In addition, the District's practice was to defer payment of tuition tax bills to the beginning of the subsequent fiscal year (July 1st). However, in Fiscal Year 2007, DOE required payment of the current year tuition bills prior to the end of the fiscal year to accommodate other Districts' funding needs. At the time this requirement was communicated, the District was not left with sufficient time to plan accordingly.

Effect

The District had to take out a loan with Commerce Bank in the amount of \$2,300,000 at the end of Fiscal Year 2007.

SCHEDULE OF FINDINGS

Recommendation

AOA recommends that the District levy a tax rate sufficient to cover the expenditures of the tuition tax program and monitor the program to ensure that expenditures are paid in a timely manner.

Auditee Response

The District concurs with the finding. The tax rate was increased from .25 to .32 (28%) in Fiscal Year 2008 to meet increased obligations including repayment of the loan taken in Fiscal Year 2007. The District continuously monitors tuition expenditures.

Finding #2

Criteria

Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Condition

Funding percentages for tuition tax employees are established at the budgeted rate at the time of hire in PHRST. The District does not maintain timesheets or time and effort certifications for the amount of payroll charged to the tuition tax programs or to support daily activity for tuition tax salaries.

Cause

DOE has not provided guidance to School Districts as to what types of supporting documentation should be maintained to support payroll charges to the tuition programs.

Effect

Without proper documentation, School Districts cannot ensure whether salaries were appropriately charged to the tuition tax programs.

Recommendation

AOA recommends that DOE provide guidance to the Districts regarding the maintenance of proper supporting documentation for salaries charged to the tuition tax programs, including internal control policies and procedures to periodically adjust payroll costs charged to tuition tax programs based on the actual activity performed, as supported by time and effort certifications. DOE should also require consistency in calculating percentages and amounts across all Districts.

Auditee Response

District Response

The District does not agree with the finding. The District does maintain supporting documentation for tuition-funded employees. In addition to the annual District staffing assignments, all schools maintain

SCHEDULE OF FINDINGS

daily attendance records for teachers. In the event a teacher changes duties or is on leave (i.e. reassignment or short-term disability), the PHRST payroll system is updated to reflect accurate records.

The District has never been required by the Department of Education to have employees complete time and effort certifications for tuition-funded programs.

DOE Response

Current tuition billing instructions stipulate in item 3, Direct and Indirect Cost that *“For those employees that charge their time to this special program, the District is responsible for maintaining appropriate documentation supporting the time charged”*.

Section 372 of the Governor’s Fiscal Year 2009 Budget Bill makes provisions for the DOE to establish regulations to further govern the tuition billing process. Should the language be approved for Fiscal Year 2009, the DOE will further clarify appropriate documentation for direct charged staff through its regulation process.

Auditor’s Comment

The documentation maintained by the District (i.e. daily teacher attendance records) is not sufficient documentation to support time and effort charged to tuition programs.

Finding #3

Criteria

Per the *Instructions for Department of Education Tuition Billing Form*, "The tuition billing form captures both direct and indirect costs. Direct costs are limited to those local costs that directly support the provision of educational services that are readily identifiable as supporting the program without requiring the assignment of costs on a pro-rated or formula basis."

Condition

The District did not ensure that tuition tax charges were adequately supported. AOA tested 40 documents from the designated tuition tax program appropriations and noted one exception. One out of 40 documents tested totaling \$1,703.42 did not agree to supporting documentation.

Cause

District Management did not provide adequate management review of expenditures for the tuition tax programs.

Effect

Charging expenditures to the tuition tax program that were not adequately supported could result in a loss of funding.

Recommendation

AOA recommends that the District develop and implement policies and procedures to ensure that the tuition program charges are adequately supported.

SCHEDULE OF FINDINGS

Auditee Response

The District does not agree with the finding. The one document in question was an energy payment that split coded the percentage of electricity costs between Richardson Park Elementary and Richardson Park Learning Center. The District recognizes there is not a memorialized agreement noting the split coding- this was a practice that has been in place for many years and is consistently applied. A review of the square footage of the building confirmed it to be an accurate split in reference to the cost of energy.

Moreover, the District does not agree that one document with the noted explanation is a basis for a global finding that the District did not provide adequate management review of tuition expenditures. The District has internal controls and policies requiring extensive review and authorization for tuition expenditures, including the principal, program manager, and two staff in the business office.

Auditor's Comment

If costs for a transaction are allocated, a copy of the allocation calculation (including rationale, dollar split, and a total dollar value that agrees to the related invoice) must be maintained with the payment voucher, as supporting documentation and justification for the charge to the program.

Finding #4

Criteria

Internal Control - Integrated Framework, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), defines control activities as policies and procedures that help ensure management directives are carried out. Control activities occur throughout an organization, at all levels and functions, and include a wide range of activities, such as authorizations, verifications, reconciliations, reviews of operating performance, security of assets, and segregation of duties. To ensure control activities meet the objectives of management, supporting documentation for all such activities should be referred to or maintained with the financial documents.

Condition

AOA noted the following from reviewing the tuition tax bills:

- The District did not maintain support for the estimated FY06 amounts on the bills.
- The District did not maintain a documented methodology to support the methods used to prepare each of the columns on those bills (estimated FY07, actual FY06, and estimated FY06).
- There were inconsistencies in the methodologies used to prepare the current year budgeted expenditures column. The bills for two programs used prior year actual expenditures and the bills for the other two programs used current year budgeted expenditures to estimate current year expenditures.
- The estimated current year expenditures also did not agree to support on two of the programs' bills.
- One bill of the four bills reviewed included calculation errors.

Cause

Management oversight and lack of management review.

SCHEDULE OF FINDINGS

Effect

Without proper supporting documentation, the District cannot ensure the accuracy of the tuition bills.

Recommendation

AOA recommends that the District develop and implement policies and procedures for preparing tuition tax bills to ensure that bills are consistently prepared and for maintaining proper supporting documentation.

Auditee Response

The District discussed methodologies with the AOA, but agrees they did not exist in written form. Detailed worksheets were provided for FY06 estimated, FY06 actual and FY07 estimated tuition billing calculations. Estimated billings were based on a number of factors that did vary by program. These included preliminary budgets, an analysis of expenditures as of the date of the bill preparation and trends in student enrollment for the program. The estimate considers all these factors as well as prior year billing trends. Estimates were calculated by the District's Financial Analyst and reviewed by the former CFO and approved by the Department of Education.

Careful consideration is given to calculating tuition billings as there is additional risk in estimating the billing amount too high or too low. If the estimate is too high, the District will collect more funds than actual expenditures and incur a liability to Districts in the following year when the bill is trued up for expenditures and student FTE enrollment. In addition to the program funding, this has significant implications for the tuition tax rate. If estimates are too low, the District would be placing other Districts at risk for increased tuition payments for the following year. The variances in methodologies exist between the programs because each program does not necessarily maintain the same trends in FTE enrollment variances and programmatic changes. Additionally, each tuition program has separate and distinct funding sources such as State LEP funding for bilingual and IDEAB for special education.

The District has and continues to implement policies and procedures regarding the preparation, review and supporting documentation for tuition billing.

DISTRIBUTION OF REPORT

Copies of the Red Clay Consolidated School District's Agreed-Upon Procedures Engagement have been distributed to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Richard S. Cordrey, Secretary, Department of Finance
The Honorable Jennifer W. Davis, Director, Office of Management and Budget
Ms. Trisha Neely, Director, Division of Accounting, Department of Finance
The Honorable Valerie A. Woodruff, Secretary, Department of Education

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph R. Biden, III, Attorney General, Office of the Attorney General
The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Dorcell Spence, Associate Secretary, Finance and Administrative Services, Department of Education
Dr. Robert J. Andrzejewski, Superintendent, Red Clay Consolidated School District
Ms. Jill Floore, Chief Financial Officer, Red Clay Consolidated School District
Mr. Irwin J. Becnel, Jr., President, Board of Education, Red Clay Consolidated School District